

CITY OF FREDERICKSBURG  
INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS  
& SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS

June 30, 2011

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**City of Fredericksburg**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Bryan O'Day	Mayor	Jan 2012
Dale Nelson	Mayor Pro tem	Jan 2012
Chad Brandenburg	Council Member	Jan 2012
Ron Moody	Council Member	Jan 2012
Mike Quigley	Council Member	Jan 2014
Brent Johns	Council Member	Jan 2014
Cindy Lantow	Clerk/Treasurer	Indefinite
David Skilton	Attorney	Indefinite

## Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council:

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Fredericksburg, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Fredericksburg's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe my audit provides a reasonable basis for my opinions.


As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which are a comprehensive basis of accounting other than US generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, I was unable to satisfy myself as to the distribution by fund of the total fund balance at July 1, 2010.

In my opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had I been able to verify the distribution by fund of the total fund balance at July 1, 2010, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Fredericksburg as of June 30, 2011, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, I have also issued my report dated March 30, 2012 on my consideration of the City of Fredericksburg's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 9 and 21 through 22 are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. I applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Fredericksburg's basic financial statements. Other supplementary information included in Schedules 1 and 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had I been able to verify the distribution by fund of the total fund balance at July 1, 2010, as discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Keith Oltrogge  
Certified Public Accountant

March 30, 2012

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The City of Fredericksburg provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### **2011 FINANCIAL HIGHLIGHTS**

- Receipts of the City's governmental activities decreased 54% or approximately \$550,000 from fiscal 2010 to fiscal 2011. The decrease was due to federal funds received in fiscal year 2010 for a bridge project.
- Disbursements of the City's governmental activities decreased 61%, or approximately \$993,000, in fiscal 2011 from fiscal 2010. Public Works disbursements decreased approximately \$852,000.
- The City's total cash basis net assets decreased 12% or approximately \$170,000 from June 30, 2010 to June 30, 2011. Of this amount, the assets of the governmental activities decreased approximately \$122,000 and the assets of the business type activities decreased approximately \$48,000.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the non-major governmental funds and the City's indebtedness.

### **Basis of Accounting**

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

## REPORTING THE CITY'S FINANCIAL ACTIVITIES

### *Government-wide Financial Statement*

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, electric utility, waste collection and the sanitary sewer system. These activities are financed primarily by user charges.

### *Fund Financial Statements*

The City has two kinds of funds:

1. Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, 3) the Debt Service Fund, and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

2. Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains five Enterprise Funds to provide separate information for the Water, Sewer, Electric Utility, Waste Collection and Consumer Deposit Funds.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from approximately -\$306,000 to approximately -\$430,000. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities			
		Year ended June 30,	
		2011	2010
Receipts and transfers:			
Program receipts:			
Charges for service	\$	35,928	\$ 28,932
Operating grants, contributions and restricted interest		16,296	16,311
Capital grants, contributions and restricted interest		10,162	625,269
General receipts:			
Property tax		151,639	130,469
Local option sales tax		81,838	77,854
Unrestricted investment on investments		1,047	1,658
Other general receipts		166,557	134,497
Total receipts	\$	463,467	\$ 1,014,990
Disbursements:			
Public safety	\$	170,306	\$ 161,950
Public works		173,504	1,026,259
Health and social services		943	943
Culture and recreation		185,508	271,500
Community and economic development		21,895	66,234
General government		93,449	112,059
Debt service		-	-
Capital projects		-	-
Total disbursements	\$	645,605	\$ 1,638,945
Change in cash basis net assets before transfers	\$	-182,138	\$ -623,955
Transfers, net		60,000	104,497
Change cash basis net assets	\$	-122,138	\$ -519,458
Cash basis net assets beginning of year		-306,105	213,353
Cash basis net assets end of year	\$	-428,243	\$ -306,105



The City's total receipts for governmental activities decreased 54%, or approximately \$550,000. The total cost of all programs and services decreased approximately \$990,000, or 61% with no new programs added this year. The significant decrease in receipts was primarily the result of federal funds received for a bridge project during fiscal 2010.

The City's property tax receipts were approximately \$152,000 in fiscal year 2011. Based on increases in the total assessed valuation, property tax receipts are budgeted to increase an additional \$8,000 next year.

The cost of all governmental activities this year was approximately \$650,000 compared to approximately \$1.64 million last year. However, as shown in the Statement of Activities and Net Assets on pages 10-11, the amount taxpayers ultimately financed for these activities was only \$580,000 because some of the cost was paid by those directly benefited from the programs (\$36,000) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (\$27,000). Overall, the City's governmental activities programs receipts, including intergovernmental aid and fees for service, decreased in 2011 from approximately \$670,000 to approximately \$62,000, principally due to receiving grant proceeds to complete the bridge project.

Changes in Cash Basis Net Assets of Business Type Activities			
		Year ended June 30,	
		2011	2010
Receipts:			
Program receipts:			
Charges for service:			
Electric	\$	1,788,396	\$ 1,483,992
Water		148,194	132,540
Waste collection		106,500	105,749
Sewer		632,402	395,189
Consumer deposits		4,525	3,060
General receipts:			
Unrestricted interest on investments		18,690	21,286
Bond proceeds		-	276,932
Other general receipts		11,590	3,998
Total receipts	\$	2,710,297	\$ 2,422,746
Disbursements:			
Electric	\$	1,509,291	\$ 1,425,918
Water		419,016	590,329
Waste collection		72,998	76,626
Sewer		691,904	254,888
Consumer deposits		5,058	2,350
Total disbursements	\$	2,698,267	\$ 2,350,111
Change in cash basis net assets before transfers	\$	12,030	\$ 72,635
Transfers, net	\$	-60,000	\$ -50,000
Change in cash basis net assets	\$	-47,970	\$ 22,635
Cash basis net assets beginning of year		1,702,003	1,679,368
Cash basis net assets end of year	\$	1,654,033	\$ 1,702,003

Total business type activities receipts for the fiscal year were approximately \$2.71 million compared to approximately \$2.423 million last year. The increase was due primarily to an increase in the use of services. The cash balance decreased approximately \$48,000 from the prior year due to increased costs of well restoration. The total disbursements for the fiscal year increased by 13% or, approximately \$350,000.

## INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Fredericksburg completed the year, its governmental funds reported a combined fund balance of -\$428,243, a decrease of more than \$122,000 from last year's total of -\$306,105. The following are major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$71,458 from the prior year to \$272,527. The decrease was due to increased costs for public safety and public works.
- The Special Revenue, Road Use Tax Fund cash balance decreased \$54,075 to -\$851,379. This decrease was attributable to increased costs for public works.

## INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Electric Fund cash balance increased \$235,193 to \$1,101,799, due primarily to an increase in the sale of electricity.
- The Enterprise, Sewer Fund cash balance decreased \$57,167 to \$427,358, due primarily to increased costs of maintenance and repairs.

## BUDGETARY HIGHLIGHTS

The City's receipts were \$633,101 more than budgeted. This was primarily due to the City receiving more in sewer and electric charges for service than anticipated.

Total disbursements were \$719,209 more than the budget. However, actual disbursements for the health and social services and community and economic development functions were \$738 and \$5,558 respectively, less than the budget. This was primarily due to the City delaying purchases for economic development.

The City exceeded the amounts budgeted in the public safety, public works, culture and recreation, general government and business type activities functions for the year ended June 30, 2011 due to higher costs for street maintenance projects, water and construction costs not budgeted.

## DEBT ADMINISTRATION

At June 30, 2011, the City had \$264,932 in revenue bonds outstanding compared to \$276,932 last year, as shown below.

	Outstanding Debt at Year-End	
	June 30,	
	2011	2010
Revenue bonds	\$ 264,932	\$ 276,932

Debt decreased as a result of payments made.

The City continues to carry a general obligation bond rating of A3 assigned by national rating agencies to the City's debt since 1995. The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding debt is significantly below its constitutional debt limit of approximately \$18 million.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Fredericksburg's elected and appointed officials and citizens considered many factors when setting the fiscal year 2012 budget, tax rates and fees charged for various City activities.

The current condition of the economy in the state continues to be a concern for City official. Some of the realities that may potentially become challenges for the City to meet are:

- Facilities at the City require constant maintenance and upkeep.
- Technology continues to expand and current technology becomes outdated presenting an on-going challenge to maintain up to date technology at a reasonable cost.
- Staying competitive with the large nation-wide companies with the price of the services we offer.

These indicators were taken into account when adopting the budget for fiscal year 2012. Amounts available for appropriation in the operating budget are approximately \$3.5 million, an increase of 21% over the final 2011 budget. Property tax and state grants are expected to lead this increase. The City will use these increases in receipts to finance the programs we currently offer. Budgeted disbursements are expected to increase approximately \$580,000. Increased health care costs, increases in street construction and maintenance represent the largest increases. The City has added no major new programs or initiatives to the 2012 budget.

If these estimates are realized, the City's budgeted cash balance is expected to increase approximately \$65,000 by the close of the fiscal year 2012.

### **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Cindy Lantow, City Clerk, 151 W Main Street, Fredericksburg, Iowa 50630.

## **Basic Financial Statements**

**City of Fredericksburg**

**Statement of Activities and Net Assets – Cash Basis**

**As of and for the year ended June 30, 2011**

	Disbursements	Charges for Service	Program Receipts	
			Operating Grants, Contributions, & Restricted Interest	Capital Grants, Contributions & Restricted Interest
<b>Functions/Programs:</b>				
Governmental activities:				
Public safety	\$ 170,306	\$ -	\$ -	\$ -
Public works	173,504	1,520	-	10,162
Health and social services	943	-	-	-
Culture and recreation	185,508	34,408	16,296	-
Community and economic development	21,895	-	-	-
General government	93,449	-	-	-
Debt service	-	-	-	-
Capital projects	-	-	-	-
Total governmental activities	<u>\$ 645,605</u>	<u>\$ 35,928</u>	<u>\$ 16,296</u>	<u>\$ 10,162</u>
Business type activities:				
Electric	\$ 1,509,291	\$ 1,788,396	\$ -	\$ -
Water	419,016	148,194	-	-
Sewer	691,904	632,402	-	-
Waste collection	72,998	106,500	-	-
Consumer deposits	5,058	4,525	-	-
Total business type activities	<u>\$ 2,698,267</u>	<u>\$ 2,680,017</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Total</b>	<u><b>\$ 3,343,872</b></u>	<u><b>\$ 2,715,945</b></u>	<u><b>\$ 16,296</b></u>	<u><b>\$ 10,162</b></u>
<b>General Receipts:</b>				
Property tax levied for:				
General purposes				
Local option sales tax				
Grants and contributions not restricted to specific purposes				
Unrestricted interest on investments				
Miscellaneous				
<b>Total general receipts</b>				
<b>Change in cash basis net assets before transfers</b>				
<b>Transfers</b>				
Transfer in				
Transfer out				
<b>Change in cash basis, net assets</b>				
<b>Cash basis net assets beginning of year</b>				
<b>Cash basis net assets end of year</b>				

**City of Fredericksburg**

**Statement of Activities and Net Assets – Cash Basis**

**As of and for the year ended June 30, 2011**

	Disbursements	Program Receipts	
		Operating Grants, Contributions, & Restricted Interest	Capital Grants, Contributions & Restricted Interest
<b>Cash Basis Net Assets</b>			
Restricted:			
Expendable:			
Streets			
Urban renewal purposes			
Debt services			
Other purposes			
Unrestricted			
Total cash basis net assets			

See notes to financial statements.

Net (Disbursements) Receipts and  
Changes in Cash Basis Net Assets

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Governmental Activities		Business Type Activities		Total
\$	-170,306	\$	-	\$ -170,306
	-161,822		-	-161,822
	-943		-	-943
	-134,804		-	-134,804
	-21,895		-	-21,895
	-93,449		-	-93,449
	-		-	-
	-		-	-
\$	-583,219	\$	-	\$ -583,219
\$	-	\$	279,105	\$ 279,105
	-		-270,822	-270,822
	-		-59,502	-59,502
	-		33,502	33,502
	-		-533	-533
\$	-	\$	-18,250	\$ -18,250
\$	-583,219	\$	-18,250	\$ -601,469
\$	151,639	\$	-	\$ 151,639
	81,838		-	81,838
	126,938		-	126,938
	1,047		18,690	19,737
	39,619		11,590	51,209
\$	401,081	\$	30,280	\$ 431,361
\$	-182,138		12,030	-170,108
	60,000		-	60,000
	-		-60,000	-60,000
\$	-122,138	\$	-47,970	\$ -170,108
	-306,105		1,702,003	1,395,898
\$	-428,243	\$	1,654,033	\$ 1,225,790

Net (Disbursements) Receipts and  
Changes in Cash Basis Net Assets

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Governmental Activities		Business Type Activities		Total
\$	-851,379	\$	-	\$ -851,379
	8,596		-	8,596
	-		264,932	264,932
	142,013		-	142,013
	272,527		1,389,101	1,661,628
\$	-428,243	\$	1,654,033	\$ 1,225,790



**City of Fredericksburg**

**Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Governmental Funds**

**As of and for the year ended June 30, 2011**

	<u>Special Revenue</u>	
	General	Road Use Tax
Receipts:		
Property tax	\$ 151,639	\$ -
Other city tax	-	-
Licenses and permits	8,127	-
Use of money and property	18,223	-
Intergovernmental	65,255	88,141
Charges for service	35,928	-
Miscellaneous	14,316	-
Total receipts	<u>\$ 293,488</u>	<u>\$ 88,141</u>
Disbursements:		
Operating:		
Public safety	\$ 170,306	\$ -
Public works	31,288	142,216
Health and social services	943	-
Culture and recreation	185,508	-
Community and economic development	739	-
General government	93,449	-
Debt service	-	-
Capital projects	-	-
Total disbursements	<u>\$ 482,233</u>	<u>\$ 142,216</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ -188,745</u>	<u>\$ -54,075</u>
Other financing sources (uses):		
Operating transfers in	\$ 117,287	\$ -
Operating transfers out	-	-
Total other financing sources (uses)	<u>\$ 117,287</u>	<u>\$ -</u>
Net change in cash balances	\$ -71,458	\$ -54,075
Cash balances beginning of year	<u>343,985</u>	<u>-797,304</u>
Cash balances end of year	<u>\$ 272,527</u>	<u>\$ -851,379</u>
<b>Cash Basis Fund Balances</b>		
Restricted for:		
Streets	\$ -	\$ -851,379
Other purposes	-	-
Urban renewal purposes	-	-
Unassigned	272,527	-
Total cash basis fund balances	<u>\$ 272,527</u>	<u>\$ -851,379</u>

See notes to financial statements.

Non-major		Total	
\$	-	\$	151,639
	81,838		81,838
	-		8,127
	-		18,223
	-		153,396
	-		35,928
	-		14,316
\$	81,838	\$	463,467
<hr/>			
\$	-	\$	170,306
	-		173,504
	-		943
	-		185,508
	21,156		21,895
	-		93,449
	-		-
	-		-
\$	21,156	\$	645,605
\$	60,682	\$	-182,138
<hr/>			
\$	-	\$	117,287
	-57,287		-57,287
\$	-57,287	\$	60,000
<hr/>			
\$	3,395	\$	-122,138
	147,214		-306,105
<hr/>			
\$	150,609	\$	-428,243
<hr/>			
\$	-	\$	-851,379
	142,013		142,013
	8,596		8,596
	-		272,527
\$	150,609	\$	-428,243

## City of Fredericksburg

Statement of Cash Receipts, Disbursements and Changes in Cash Balances  
Proprietary Funds

As of and for the year ended June 30, 2011

	Enterprise Funds			
	Electric	Sewer	Non-Major	Total
Operating receipts:				
Charges for service	\$ 1,788,396	\$ 632,402	\$ 259,219	\$ 2,680,017
Operating disbursements:				
Business type activities	\$ 1,509,291	\$ 691,904	\$ 497,072	\$ 2,698,267
Excess (deficiency) of operating receipts over (under) operating disbursements	\$ 279,105	\$ -59,502	\$ -237,853	\$ -18,250
Non-operating receipts (disbursements):				
Interest on investments	\$ 13,546	\$ 1,576	\$ 3,568	\$ 18,690
Miscellaneous	2,542	759	8,289	11,590
Net non-operating receipts (disbursements)	\$ 16,088	\$ 2,335	\$ 11,857	\$ 30,280
Excess (deficiency) of receipts over (under) disbursements	\$ 295,193	\$ -57,167	\$ -225,996	\$ 12,030
Operating Transfers out	-60,000	-	-	-60,000
Net change in cash balances	\$ 235,193	\$ -57,167	\$ -225,996	\$ -47,970
Cash balances beginning of year	866,606	484,525	350,872	1,702,003
Cash balances end of year	\$ 1,101,799	\$ 427,358	\$ 124,876	\$ 1,654,033
<b>Cash Basis Fund Balances</b>				
Restricted for debt service	\$ -	\$ -	\$ 264,932	\$ 264,932
Unrestricted	1,101,799	427,358	-140,056	1,389,101
Total cash basis fund balances	\$ 1,101,799	\$ 427,358	\$ 124,876	\$ 1,654,033

See notes to financial statements.

## City of Fredericksburg

### Notes to Financial Statements

June 30, 2011

#### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Fredericksburg is a political subdivision of the State of Iowa located in Chickasaw County. It was first incorporated in 1894 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water, electric, sewer and waste collection utilities for its citizens.

##### A. Reporting Entity

For financial reporting purposes, the City of Fredericksburg has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

The following component unit is an entity that is legally separate from the City, but is so intertwined with City that it is, in substance, part of the City. However, the financial transactions of this component unit have not been displayed because they are not material.

The Fredericksburg Volunteer Fire Department collects donations, which are used to purchase items, which are not included in the City's budget.

##### Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Chickasaw County Assessor's Conference Board, City Assessor's Conference Board, Chickasaw County Emergency Management Commission and Chickasaw County Joint E911 Service Board.

##### B. Basis of Presentation

Government-wide Financial Statements – The Statement of Activities and Net Assets reports information on all of the non-fiduciary activities of the City. For the most part, the effect of inter-fund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's non-fiduciary net assets. Net assets are reported in the following categories:

*Nonexpendable restricted net assets* are subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City's Permanent Fund.

*Expendable Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets not meeting the definition of the preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The City reports the following major proprietary funds:

The Enterprise, Electric Fund accounts for the operation and maintenance of the City's electric utility.

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. The City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Non-spendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the Council intends to use for specific purposes.

Unassigned – All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2011, disbursements exceeded the amounts budgeted in the public safety, public works, culture and recreation, general government, and business type activities functions.

**NOTE 2 – CASH AND POOLED INVESTMENTS**

The City's deposits in banks at June 30, 2011 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2011, the City had the following investments:

Certificates of Deposits

Investments	Interest Rate	Maturity	Carrying Amount	Fair Value
Northeast Security Bank	1.00%	2-13-12	\$ 25,000	\$ 25,000
Northeast Security Bank	1.00%	8-19-12	1,283	1,283
Northeast Security Bank	1.00%	1-11-12	50,000	50,000
Northeast Security Bank	1.00%	5-22-12	20,000	20,000
Northeast Security Bank	1.00%	5-22-12	10,000	10,000
Northeast Security Bank	1.00%	9-23-12	5,153	5,153
Northeast Security Bank	1.00%	3-6-12	110,000	110,000
Northeast Security Bank	0.85%	12-11-12	10,000	10,000
Bank Iowa	0.90%	3-7-12	30,000	30,000
Bank Iowa	0.90%	3-7-12	60,000	60,000
Bank Iowa	0.90%	3-7-12	20,000	20,000
Bank Iowa	0.90%	3-7-12	20,000	20,000
Bank Iowa	0.80%	8-16-11	50,000	50,000
Bank Iowa	0.90%	2-16-12	25,000	25,000
Bank Iowa	0.90%	1-22-12	50,000	50,000
Bank Iowa	0.90%	1-22-12	20,000	20,000
Bank Iowa	0.90%	1-22-12	15,000	15,000
Bank Iowa	0.90%	1-22-12	10,000	10,000
Bank Iowa	0.90%	1-22-12	5,371	5,371
JP Morgan Chase Bank	1.26%	12-30-24	21,000	20,658
JP Morgan Chase Bank	1.81%	1-29-25	9,000	8,755
Total			\$ 566,807	\$ 566,220

Mutual Funds

Prudential Short-term Corporate Bond Fund Inc, Class C	\$ 70,892	\$ 69,759
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In addition, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$55,812 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Interest Rate Risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

Credit Risk - The City's investment in the Iowa Public Agency Investment Trust is unrated. The City's investment in mutual funds is rated 4-star by Morningstar.

### NOTE 3 – REVENUE BONDS PAYABLE

Annual debt service requirements to maturity for revenue bonds are as follows:

Year Ending June 30,	Water Revenue Bonds		Total
	Principal	Interest	
2012	\$13,000	\$7,948	\$20,948
2013	14,000	7,558	21,558
2014	14,000	7,138	21,138
2015	15,000	6,718	21,718
2016	15,000	6,268	21,268
2017-2021	83,000	24,320	107,320
2022-2027	110,932	11,448	122,380
Total	\$264,932	\$71,398	\$336,330

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$342,000 of water revenue bonds issued in April 2010. Proceeds from the bonds provided financing for the construction of water main extensions. The bonds are payable solely from water customer net receipts and are payable through 2027. Annual principal and interest payments on the notes are expected to require less than 20% of net receipts. The total principal and interest remaining to be paid on the notes is \$336,330. For the current year, principal and interest paid and total customer net receipts were \$21,866 and -\$123,519, respectively.

The resolutions providing for the issuance of the revenue bonds include the following provisions:

- The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- Sufficient monthly transfers shall be made to a separate water revenue bond sinking fund within the Enterprise Funds for the purpose of making the note principle and interest payments when due.

The City did not comply with all of the revenue bond provisions during the year ended June 30, 2011. The required sinking fund account was not established by the City and no transfers were made to the sinking fund account.

### NOTE 4 – PENSION AND RETIREMENT BENEFITS

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing, multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 4.50% of their annual covered salary and the City is required to contribute 6.95% of covered salary. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2011 was \$9,739, equal to the required contribution for the year.

### NOTE 5 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan description – The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees and retirees and their spouses. There are 5 active and no retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$0 for single coverage and \$480 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2011, the City contributed \$28,333 and plan members eligible for benefits contributed \$960 to the plan.



#### NOTE 6 – COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave payable to employees at June 30, 2011, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 1,168
Sick leave	6,265
Total	<u>\$ 7,433</u>

This liability has been computed based on rates of pay in effect at June 30, 2011.

#### NOTE 7 – INTER-FUND TRANSFERS

The detail of inter-fund transfers for the year ended June 30, 2011 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue – Local Option Sales Tax	\$ 57,287
General	Enterprise Fund – Electric	60,000
Total		<u>\$ 117,287</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

#### NOTE 8 – RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

#### NOTE 9 – DEFICIT BALANCES

At June 30, 2011, the City had deficit fund balances as follows:

	Deficit Balances June 30, 2011
Special Revenue – Road Use Tax	\$ -851,379
Enterprise – Water	\$ -123,519

The Special Revenue, Road Use Tax Fund deficit is the result of street and bridge project related disbursements charged to the Road Use Tax Fund in excess of available revenues because the bridge project funds were deposited into the general fund.

The Enterprise, Water Fund deficit is the result of water system improvement disbursements charged to the fund in excess of available revenues. The deficit will be eliminated through future revenues.

#### **NOTE 10 – SUBSEQUENT EVENTS**

In August 2011, the City issued \$450,000 of general obligation bonds and entered into construction contracts totaling \$347,285 for a street project.

#### **NOTE 11 – COMMITMENTS**

The City had a well restoration project in process at June 30, 2011. The final payment was made in July 2011.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**City of Fredericksburg**

**Budgetary Comparison Schedule  
of Receipts, Disbursements, and Changes in Balances –  
Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds**

**Required Supplementary Information**

**Year ended June 30, 2011**

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds Not Required To Be Budgeted
Receipts:			
Property tax	\$ 151,639	\$ -	\$ -
Tax increment financing collections	-	-	-
Other city tax	81,838	-	-
Licenses and permits	8,127	-	-
Use of money and property	18,223	18,690	-
Intergovernmental	153,396	-	-
Charges for service	35,928	2,680,017	3,130
Miscellaneous	14,316	11,590	8,256
Total receipts	\$ 463,467	\$ 2,710,297	\$ 11,386
Disbursements:			
Public safety	\$ 170,306	\$ -	\$ -
Public works	173,504	-	-
Health and social services	943	-	-
Culture and recreation	185,508	-	-
Community and economic development	21,895	-	-
General government	93,449	-	-
Debt service	-	-	-
Capital projects	-	-	-
Business type activities	-	2,698,267	1,430
Total disbursements	\$ 645,605	\$ 2,698,267	\$ 1,430
Excess (deficiency) of receipts over (under) disbursements	\$ -182,138	\$ 12,030	\$ 9,956
Other financing sources, (uses) net	60,000	-60,000	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	\$ -122,138	\$ -47,970	\$ 9,956
Balances beginning of year	-306,105	1,702,003	-
Balances end of year	\$ -428,243	\$ 1,654,033	\$ 9,956

See accompanying independent auditor's report.

Total	Budgeted Amounts	Final to Total Variance
\$ 151,639	\$ 149,468	\$ 2,171
-	-	-
81,838	82,794	-956
8,127	1,725	6,402
36,913	22,160	14,753
153,396	132,556	20,840
2,712,815	2,124,194	588,621
17,650	16,380	1,270
\$ 3,162,378	\$ 2,529,277	\$ 633,101
\$ 170,306	\$ 140,922	\$ -29,384
173,504	129,970	-43,534
943	1,681	738
185,508	177,637	-7,871
21,895	27,453	5,558
93,449	92,414	-1,035
-	-	-
-	-	-
2,696,837	2,053,156	-643,681
\$ 3,342,442	\$ 2,623,233	\$ -719,209
\$ -180,064	\$ -93,956	\$ -86,108
-	-	-
\$ -180,064	\$ -93,956	\$ -86,108
1,395,898	1,307,787	88,111
\$ 1,215,834	\$ 1,213,831	\$ 2,003

**City of Fredericksburg**

**Notes to Required Supplementary Information – Budgetary Reporting**

**June 30, 2011**

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, the Permanent Fund and the Enterprise Funds. Although the budget document presents functional disbursements by fund, the legal level of control is at the aggregated function level, not by fund.

During the year ended June 30, 2011, disbursements exceeded the amount budgeted in the public safety, public works, culture and recreation, general government and business type activities functions.

## **Other Supplementary Information**

## City of Fredericksburg

**Schedule of Cash Receipts, Disbursements and Changes in Cash Balances**  
**Non-major Governmental Funds**

**Year ended June 30, 2011**

	<u>Special Revenue</u>		
	Local Option Sales Tax	Tax Increment Financing	Total
Receipts:			
Property tax	\$ -	\$ -	\$ -
Other city taxes	81,838	-	81,838
Total receipts	<u>\$ 81,838</u>	<u>\$ -</u>	<u>\$ 81,838</u>
Disbursements:			
Operating:			
Community and economic development	\$ 21,156	\$ -	\$ 21,156
Debt service	-	-	-
Total disbursements	<u>\$ 21,156</u>	<u>\$ -</u>	<u>\$ 21,156</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ 60,682</u>	<u>\$ -</u>	<u>\$ 60,682</u>
Other financing uses:			
Operating transfers out	<u>\$ -57,287</u>	<u>\$ -</u>	<u>\$ -57,287</u>
Net change in cash balances	\$ 3,395	\$ -	\$ 3,395
Cash balances beginning of year	138,618	8,596	147,214
Cash balances end of year	<u>\$ 142,013</u>	<u>\$ 8,596</u>	<u>\$ 150,609</u>
Cash Basis Fund Balances			
Restricted for:			
Urban renewal purposes	\$ -	\$ 8,596	\$ 8,596
Other purposes	142,013	-	142,013
Total cash basis fund balances	<u>\$ 142,013</u>	<u>\$ 8,596</u>	<u>\$ 150,609</u>

See accompanying independent auditor's report.



## City of Fredericksburg

**Schedule of Cash Receipts, Disbursements and Changes in Cash Balances**  
**Non-major Proprietary Funds**

**As of and for the year ended June 30, 2011**

	Enterprise			
	Water	Waste Collection	Consumer Deposits	Total
Operating receipts:				
Charges for service	\$ 148,194	\$ 106,500	\$ 4,525	\$ 259,219
Operating disbursements:				
Business type activities	\$ 419,016	\$ 72,998	\$ 5,058	\$ 497,072
Excess (deficiency) of operating receipts over (under) operating disbursements	\$ -270,822	\$ 33,502	\$ -533	\$ -237,853
Non-operating receipts (disbursements)				
Interest on investments	\$ 1,803	\$ 1,765	\$ -	\$ 3,568
Miscellaneous	1,324	6,965	-	8,289
Total non-operating receipts (disbursements)	\$ 3,127	\$ 8,730	\$ -	\$ 11,857
Excess (deficiency) of receipts over (under) disbursements	\$ -267,695	\$ 42,232	\$ -533	\$ -225,996
Cash balances beginning of year	144,176	198,106	8,590	350,872
Cash balances end of year	\$ -123,519	\$ 240,338	\$ 8,057	\$ 124,876
<b>Cash Basis Fund Balances</b>				
Restricted for debt service	\$ 264,932	\$ -	\$ -	\$ 264,932
Unrestricted	-388,451	240,338	8,057	-140,056
Total cash basis fund balances	\$ -123,519	\$ 240,338	\$ 8,057	\$ 124,876

See notes to financial statements.

**City of Fredericksburg**  
**Schedule of Indebtedness**  
**Year ended June 30, 2011**

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
Revenue bonds: Water	April 21, 2010	3.00%	<u>\$342,000</u>

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
\$276,932	\$-	\$12,000	\$264,932	\$9,865	\$-

**City of Fredericksburg**  
**Bond and Note Maturities**  
**June 30, 2011**

Year Ending June 30,	Revenue Bonds	
	Water	
	Issued April 21, 2010	
	Interest Rate	Amount
2012	3.00%	\$13,000
2013	3.00%	14,000
2014	3.00%	14,000
2015	3.00%	15,000
2016	3.00%	15,000
2017	3.00%	15,000
2018	3.00%	16,000
2019	3.00%	17,000
2020	3.00%	17,000
2021	3.00%	18,000
2022	3.00%	18,000
2023	3.00%	19,000
2024	3.00%	19,000
2025	3.00%	20,000
2026	3.00%	21,000
2027	3.00%	13,932
Total		<u>\$264,932</u>

## City of Fredericksburg

Schedule of Receipts By Source and Disbursements By Function –  
All Governmental Funds

For the Last Two Years

	2011	2010
		(Unaudited)
Receipts:		
Property tax	\$ 151,639	\$ 130,469
Tax increment financing collection	-	-
Other city tax	81,838	81,658
Licenses and permits	8,127	2,235
Use of money and property	18,223	156,316
Intergovernmental	153,396	616,827
Charges for service	35,928	7,357
Special assessments	-	-
Miscellaneous	14,316	20,128
Total	<u>\$ 463,467</u>	<u>\$ 1,014,990</u>
Disbursements:		
Operating:		
Public safety	\$ 170,306	\$ 161,950
Public works	173,504	1,026,259
Health and social services	943	943
Culture and recreation	185,508	271,500
Community and economic development	21,895	66,234
General government	93,449	112,059
Debt service	-	-
Capital projects	-	-
Total	<u>\$ 645,605</u>	<u>\$ 1,638,945</u>

**Independent Auditor's Report on Internal Control over Financial Reporting  
and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance  
with Government Auditing Standards**

Independent Auditor's Report on Internal Control over Financial Reporting  
and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance  
with Government Auditing Standards

To the Honorable Mayor and  
Members of the City Council:

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Fredericksburg, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents and have issued my report thereon dated March 30, 2012. My report expressed unqualified opinions on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City of Fredericksburg's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing my opinion on the effectiveness of the City of Fredericksburg's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the City of Fredericksburg's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, I identified certain deficiencies in internal control over financial reporting I consider to be material weaknesses and other deficiencies I consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Fredericksburg's financial statements will not be prevented or detected and corrected on a timely basis. I consider the deficiencies described in Part I of the accompanying Schedule of Findings as items I-A-11, I-B-11, and I-C-11 to be material weaknesses.

A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. I consider the deficiencies described in Part I of the accompanying Schedule of Findings as items I-D-11 through I-I-11 to be significant deficiencies.

### Compliance and Other Matters


As part of obtaining reasonable assurance about whether the City of Fredericksburg's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed one instance of non-compliance or other matters that are required to be reported under Government Auditing Standards. It is described in Part I of the accompanying Schedule of Findings as item I-J-11. I also noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the City. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Fredericksburg's responses to findings identified in my audit are described in the accompanying Schedule of Findings. While I have expressed my conclusions on the City's responses, I did not audit the City of Fredericksburg's responses and, accordingly, I express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Fredericksburg and other parties to whom the City of Fredericksburg may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to me by personnel of the City of Fredericksburg during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.

  
Keith Oltrogge  
Certified Public Accountant

March 30, 2012



**City of Fredericksburg**

**Schedule of Findings**

**Year ended June 30, 2011**

**Part I – Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

- I-A-11 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash disbursements are prepared, signed, mailed and posted to the cash disbursements journal by the same person. Also, the bank reconciliations are done by the same person.

Recommendation – I realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available personnel.

Response – We will consider this.

Conclusion – Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

- I-B-11 General Ledger – The detail in the general ledger does not show the payee on the disbursements.

Recommendation – In order to strengthen internal control the City should have accounting software that provides the details necessary to review financial transactions.

Response – We will consider this.

Conclusion – Response acknowledged.

- I-C-11 Disbursement Approval – For two of fifteen transactions tested, there were no evidence of Council approval because the list of bills presented to the City Council had each vendor with the total amount paid to them during the month instead of each individual bill.

Recommendation – The City should ensure all expenditures are properly approved. The City should review the list of bills presented to the City Council at regular meetings to ensure all claims are listed individually.

Response – We will ensure all expenditures are properly approved.

Conclusion – Response accepted.

- I-D-11 Financial Accounting and Reporting – An internal control system that does not prevent or detect material misstatements identified by the audit is considered a control deficiency. I proposed numerous adjusting journal entries as a result of my audit which were subsequently made by the City. The errors included incorrect functional classifications of revenues and expenses and coding of transactions to the incorrect funds. The adjusting journal entries were deemed material to the City's financial statements.

Recommendation – The City should implement procedures to ensure disbursements and receipts are properly recorded in the City's financial statements.

Response – We will double check this in the future to avoid posting errors.

Conclusion – Response accepted.

**City of Fredericksburg**

**Schedule of Findings**

**Year ended June 30, 2011**

**Part I – Findings Related to the Financial Statements (continued):**

**INTERNAL CONTROL DEFICIENCIES:**

- I-E-11 Fund Balance – The City records receipts and disbursements for each fund on its computer system software. However, the City does not use the computer system software to track fund balances. Monthly reports are prepared using a spreadsheet which summarizes each fund's total receipts, total disbursements, total transfers in/out and reconciles the beginning balance with the ending fund balance.

Adjustments were made to the monthly spreadsheets which were not documented or recorded on the City's computer system software. Therefore, the beginning fund balance plus year to date receipts and minus year to date disbursements did not reconcile with the ending fund balance. This matter was resolved for audit purposes.

Recommendation – Corrections to the spreadsheets should be documented and recorded on the City's computer system software.

Also, the City should consider recording fund balances exclusively on the City's computer system software.

Response – Corrections will be made to both the spreadsheet and the computer system software.

Conclusion – Response acknowledged.

- I-F-11 Investments – A detailed investment register was not maintained for the fiscal year. At June 30, 2011, certificates of deposit were overstated by \$185,707 and mutual funds were understated \$70,892. Adjustments were subsequently made to properly record the investments in the City's financial statement.

Recommendation – A detailed investment register should be maintained by an individual not having custody of the investments. Also, the investment register, including interest receipts, should be periodically reconciled with the accounting records by an independent person.

Response – A register will be maintained and reconciled quarterly.

Conclusion – Response accepted.

**City of Fredericksburg**

**Schedule of Findings**

**Year ended June 30, 2011**

**Part I – Findings Related to the Financial Statements (continued):**

**INTERNAL CONTROL DEFICIENCIES:**

- I-G-11 Annual Financial Report – Section 384.22 of the Code of Iowa states, in part, “Not later than December 1 of each year, a city shall publish an annual report as provided in section 362.3 containing a summary of the preceding fiscal year of all collections and receipts, all accounts due the city, and all expenditures, the current public debt of the city, and the legal debt limit of the city for the current fiscal year. The report shall be prepared on forms and pursuant to instructions prescribed by the auditor of state. A copy of this report must be filed with the auditor of state not later than December 1 of each year.”

The Annual Financial Reports submitted to the Auditor of State for fiscal years 2010 and 2011 had material errors in the beginning and ending fund balances. The beginning and ending fund balances on the Annual Financial Reports for fiscal years 2010 and 2011 were overstated when compared to the City’s general ledger and balances on the year-end bank statements.

Recommendation – The City should review and reconcile the Annual Financial Report with the City’s general ledger and balances per the year-end bank statements prior to submitting the report to the State.

Response – We will perform a thorough review before we submit the annual report.

Conclusions – Response accepted.

- I-H-11 Pool Receipts are not deposited timely – I noted several instances where pool receipts were deposited two weeks or more after the deposit slip was made out. This leaves your cash susceptible to theft.

Recommendation – The City should deposit all receipts within three days of receiving them.

Response – We will do this.

Conclusion – Response accepted.

- I-I-11 Signature Stamp – The City utilizes dual signatures; however, the City Clerk has access to the Mayor’s signature stamp.

Recommendation – The Mayor’s signature stamp should be under the control of an independent person if not under control of the Mayor.

Response – We will comply with this recommendation.

Conclusion – Response accepted.

**City of Fredericksburg**

**Schedule of Findings**

**Year ended June 30, 2011**

**Part I – Findings Related to the Financial Statements (continued):**

**INSTANCES OF NON-COMPLIANCE:**

I-J-11 Lack of an Audit in Accordance With OMB Circular A-133, Audits of States, Local Governments and Non-profit Organizations – During the year ended June 30, 2010, the City expended over \$500,000 of federal funds to restore a bridge.

Recommendation – The City should obtain an audit in accordance with OMB Circular A-133.

Response – We will do this.

Conclusion – Response accepted.

**City of Fredericksburg**

**Schedule of Findings**

**Year ended June 30, 2011**

**Part II: Other Findings Related to Statutory Reporting:**

- II-A-11 Certified Budget – Disbursements during the year ended June 30, 2011 exceeded the amount budgeted in the public safety, public works, culture and recreation, general government and business type activities functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation”.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The budget will be amended in the future, if applicable.

Conclusion – Response accepted.

- II-B-11 Questionable Disbursements – No disbursements I believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.

- II-C-11 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

- II-D-11 Business Transactions – No business transactions between the City and City officials or employees were noted.

- II-E-11 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

- II-F-11 Council Minutes – No transactions were found that I believe should have been approved in the Council minutes but were not.

The Council went into closed session on April 15, 2010. However, the reason for the closed session was not an appropriate one as required by Chapter 21 of the Code of Iowa, commonly known as the open-meetings law.

Although the City’s receipts were published, they were not published within fifteen days as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation – The City should comply with Chapter 21 of the Code of Iowa and should publish receipts as required.

Response – We will comply with the Code requirements and will publish receipts as required.

Conclusion – Response accepted.

**City of Fredericksburg**

**Schedule of Findings**

**Year ended June 30, 2011**

**Part II: Other Findings Related to Statutory Reporting (continued):**

- II-G-11 Deposits and Investments – The City had 2 certificates of deposit held in a depository outside the state. Chapter 12C of the Code of Iowa requires City deposits be held in depositories located in the county in which the City is located or in an adjoining county, but if there is no depository in the county in which the city is located or in an adjoining county, then in any other depository located in this state which shall be selected as a depository by the city council.

The City had money invested in mutual funds. Chapter 12C of the Code of Iowa requires public funds to be invested only in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Recommendation – The City should only deposit funds in allowable depositories.

Response – We will review and revise our policies and deposit only in allowable depositories.

Conclusion – Response accepted.

- II-H-11 Financial Condition – The Enterprise Fund – Water had a deficit balance of \$123,519 at June 30, 2011. The Special Revenue – Road Use Tax Fund had a deficit balance of \$851,379 at June 30, 2011.

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return these funds to sound financial positions.

Response – We are working on this.

Conclusion – Response accepted.

- II-I-11 Revenue Bonds – The City has not established the reserve account required by the revenue bond resolution. In addition, the required transfers from the revenue account to the sinking account were not made by the City.

Recommendation – The City should establish the reserve account in the amount required and make the transfers to the sinking account as required by the bond resolution.

Response – We will establish a reserve account and begin making transfers to a sinking account.

Conclusion – Response accepted.

**City of Fredericksburg**

**Schedule of Findings**

**Year ended June 30, 2011**

**Part II: Other Findings Related to Statutory Reporting (continued):**

- II-J-11 Electronic Check Retention – Section 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required.

Recommendation – The City should obtain and retain an image of both the front and back of each cancelled check as required.

Response – We will comply with this recommendation.

Conclusion – Response accepted.

- II-K-11 Outstanding Obligations Report – The annual outstanding obligations report was not filed with the Treasurer of Iowa for the year ended June 30, 2011.

Recommendation – The City should file the report as required.

Response – We will establish procedures to ensure this annual report is filed in a timely manner.

Conclusion – Response accepted.